

# **Fiscal Services Division Legislative Services Agency Fiscal Note**

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HF 2302 - Gambling (LSB 6473 HV)

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Fiscal Note Version — New

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## **Description**

House File 2302 deals with changing the gambling tax for racetrack casinos and excursion gambling boats, establishes a maximum number of gambling licenses, provides an option for table games at racetrack casinos for a higher tax rate, provides for the conversion of a excursion gambling boat to a barge and specifies that if there are two boats in a county and only one converts to a barge there would be a higher tax rate on the barge, and related issues.

## **Assumptions**

House File 2302 provides for the following changes to the State Gaming Tax:

- The Racing and Gaming Commission (Commission) estimates that riverboat and table gaming licenses would not be purchased until the later half of FY 2005 and that there would be little or no fiscal impact on increased gaming tax revenues until FY 2006.
- Provides for a tax rate of 22.0% for racetrack casinos.
- Provides that if a racetrack casino is issued a table gaming license, the rate of tax is 26.0%.
- Provides for a tax rate of 22.0% for excursion gambling boats.
- Provides that if a boat converts to a barge in a county where another boat remains an excursion boat, the tax rate is 26.0%.
- Maintains the current tax rate of 5.0% on the first \$1.0 million of adjusted gross receipts and 10.0% tax rate on the next \$2.0 million of revenue.
- Provides an increase in the allocation of gaming tax receipts to the Gambler's Treatment Fund of 0.2%, bringing the allocation to 0.5%.
- Establishes a new allocation of gaming tax receipts for a Community Endowment Fund in the State treasury under control of the Department of Revenue of 0.5%. These funds would be disbursed to counties in which no gaming license has been issued.
- Establishes a \$10.0 million license fee for any racetrack casino that applies for and is granted a table gaming license.
- Authorizes up to five new gambling boat licenses and establishes an initial licensing fee of \$10.0 million and provides that if the Commission determines insufficient progress has been made in construction of the facility, an annual renewal fee of \$10.0 million may be assessed or the licensee will forfeit the license.

Other related changes that have fiscal impacts:

- Increases the contribution from the State lottery to the Gambler's Treatment Fund from 0.3% to 0.5% of the gross lottery revenue.
- Changes the admission fee for racetrack casinos from \$0.50 per admission to a regulatory fee sufficient to cover the regulatory costs of the Commission and the Department of Public Safety. This will provide the same form of assessment for racetrack casinos as is already established for gambling boats.

- Increases the number of Department of Public Safety employees from 2.0 FTE positions to 3.0 FTE positions for each racetrack casino that adds table games.

### **Correctional Impact**

The correctional impact of HF 2302 cannot be determined due to insufficient information. However, a person under age 21 who is caught gambling at a racetrack casino or gambling boat is guilty of a scheduled violation with a fine of \$500. Based on the level of convictions for similar offenses under current law, the impact is not expected to be significant. If new excursion gambling boats or racetrack casinos are allowed, an increase in other types of crime near the new facilities may result, however, the correctional impact cannot be determined.

### **Fiscal Impact**

House File 2302 will result in an estimated State Gaming Tax prior to other fund adjustments of \$220.8 million from all existing racetrack casino and gambling boat operations. After allocations to the Gambler's Treatment Fund (0.2% or \$2.0 million) and the new allocation to the Community Endowment Fund (0.5% or \$5.0 million), net State Gaming Tax revenues will be \$213.9 million compared to current law after the Court ruling. (See **Exhibit 1** for a comparison to the 20.0% tax rate.)

The license fee for table games at racetrack casinos is established at \$10.0 million. If all three racetrack casinos applied and were granted licenses, the result would be an additional \$30.0 million in revenues.

The impact on Gaming Tax revenues if five new boat licenses were issued would be an estimated \$31.1 million in net State receipts, based on the Strategic Economics Group study. Additionally, the State would receive \$50.0 million in initial licensing fees. (See **Exhibit 2**.)

Gaming Tax receipts to cities and counties would remain at 0.5% of adjusted gross receipts (\$5.0 million each) and the Gambler's Treatment Fund and the new Community Endowment Fund would also receive 0.5% (\$5.0 million each). If all five new licenses were issued, each of these would receive an additional \$155,000 annually.

The increase from 0.3% to 0.5% of gross lottery revenue will result in an estimated \$349,000 increase for the Gambler's Treatment Fund and an equal reduction to the General Fund.

Racetrack casinos paid \$3.3 million to the State in admission fees in FY 2003. The costs to the Commission for pari-mutuel regulation were \$2.3 million and the costs to the Department of Public Safety (DPS) were \$425,000. Changing from the admission fee to a regulatory fee will result in a loss to the General Fund of \$505,000.

Costs of regulation for each additional new boat would be \$164,000 for regulation by the Commission and \$450,000 for law enforcement through DPS, and an additional \$121,000 for one special agent in charge for every two new boat licenses issued.

For additional detail see **Exhibit 1 and 2**.

## **Sources**

Racing and Gaming Commission  
Strategic Economics Group Study (SEG)  
Iowa Financial Accounting System Data  
Department of Human Rights, Criminal and Juvenile Justice Planning Division  
Legislative Services Agency Budget Data

Dennis C Prouty

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February 25, 2004

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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## State Gaming Tax Receipts

<b>Racetracks</b>	<b>Adjusted Gross Revenue October 10, 2003 REC Estimate for FY 2004</b>	<b>Assume Tax Rate of 32.0% Pre- Court</b>	<b>Assume Tax Rate of 20.0% Post Court</b>	<b>Proposed Tax Structure</b>
<i>Bluffs Run - Slots</i>	\$ 123,200,000	\$ 37,112,400	\$ 22,688,400	\$ 25,092,400
<i>Dubuque Greyhound Park - Slots</i>	41,500,000	12,030,500	7,410,500	8,180,500
<i>Prairie Meadows - Slots</i>	153,510,000	46,417,570	28,356,370	37,386,970
<i>Prairie Meadows - Table Games</i>	45,000,000	0	0	10,585,000
<b>Total Tracks</b>	<b>\$ 363,210,000</b>	<b>\$ 95,560,470</b>	<b>\$ 58,455,270</b>	<b>\$ 81,244,870</b>

<b>Excursion Gambling Boats</b>	<b>Adjusted Gross Revenue October 10, 2003 REC Estimate for FY 2004</b>	<b>Assume Tax Rate of 20.0% Pre- Court</b>	<b>Assume Tax Rate of 20.0% Post Court</b>	<b>Proposed Tax Structure</b>
Rhythm City (Davenport)	\$ 67,980,000	\$ 12,362,260	\$ 12,362,260	\$ 13,661,860
Mississippi Belle (Clinton)	27,742,000	4,837,754	4,837,754	5,332,594
Diamond Jo Casino (Dubuque)	51,294,000	9,241,978	9,241,978	10,207,858
Catfish Bend (Burlington/Ft. Madison)	28,560,000	4,990,720	4,990,720	5,501,920
Belle of Sioux City (Sioux City)	41,616,000	7,432,192	7,432,192	8,204,512
Isle of Capri Marquette (Marquette)	40,290,000	7,184,230	7,184,230	7,930,030
Isle of Capri Bettendorf (Bettendorf)	101,000,000	18,537,000	18,537,000	20,497,000
Harrahs (Council Bluffs)	107,670,000	19,784,290	19,784,290	26,064,490
Ameristar Casino (Council Bluffs)	150,450,000	27,784,150	27,784,150	30,733,150
Lakeside (Osceola)	57,165,000	10,339,855	10,339,855	11,423,155
<b>Total Boats</b>	<b>\$ 673,767,000</b>	<b>\$ 122,494,429</b>	<b>\$ 122,494,429</b>	<b>\$ 139,556,569</b>

<b>Total Racetracks and Boats</b>	<b>\$ 218,054,899</b>	<b>\$ 180,949,699</b>	<b>\$ 220,801,439</b>
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<b>Estimated increase in State Tax Receipts from 20.0% to Proposal</b>	<b>\$ 39,851,740</b>
<b>Reduction for Additional allocation to Gambler's Treatment</b>	<b>- 1,983,954</b>
<b>Reduction for Additional allocation to Community Endowment Fund</b>	<b>- 4,959,885</b>
<b>Net State Gaming Tax Receipts Increase</b>	<b>\$ 32,907,901</b>

**Potential New Revenues**

Table Gaming Licenses at Tracks (If three were granted)	\$ 30,000,000
New Boats Initial License Fee (If five were granted)	\$ 50,000,000
New Boats Additional Revenue SEG Estimates (See attached spreadsheet)	\$ 31,069,899

## State Gaming Tax Receipts

<u>Expansion Gambling Boats</u>	<u>Strategic Economics Group Estimates*</u>	<u>State Receipts Assume Tax Rate of 22.0%</u>
New Boat 1	\$ 82,710,444	\$ 16,153,089
New Boat 2	29,439,336	5,498,867
New Boat 3	23,056,287	4,222,257
New Boat 4	18,681,828	3,347,366
New Boat 5	11,186,598	1,848,320
<b>Total New Boats</b>	<b><u>\$ 165,074,493</u></b>	<b><u>\$ 31,069,899</u> **</b>

\*Adjusted Gross Revenue (AGR) as estimated in the Strategic Economics Group (SEG) Study.

\*\*Does not include an estimate for Ft. Dodge as a referendum has not passed yet.

If the SEG group estimate for Ft. Dodge was used instead of Emmetsberg, an additional \$520,000 in State receipts is projected.